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SUBJECT: IRAQ PLEDGES 5 BCM/Y OF GAS TO EUROPE

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¶1. (SBU) Summary. In meetings in Brussels this week Iraq's Oil Minister pledged to supply Europe with 5 billion cubic meters per year (bcm/y) of gas. The gas would come from development of Iraq's western Akkas field and would be supplied to Europe by building pipeline interconnections between Iraq, Syria, and Turkey. The announcement comes as the EU is looking for ways to meet a projected shortfall in future gas supplies. In addition to the pledge, Iraq and the EU are very close to signing a broad Energy Cooperation MOU that is viewed as the first step towards a more comprehensive cooperation agreement. End Summary

¶2. (SBU) Roland Kobia, Member of EU Energy Commissioner Andris Piebalgs Cabinet, told EST officers that Iraq's oil minister Hussain al-Shahrastani pledged to supply Europe with 5 bcm/y during an April 16 breakfast meeting with Piebalgs. This pledge was re-discussed later in the day by EU President Jose Manuel Barroso and Iraqi Prime Minister Nouri al-Maliki. Kobia characterized it as "A political gesture of good will." Al-Shahrastani's pledge was picked up in a number of press reports and likened to the pledge made last week by Turkmenistan to supply the EU with 10 bcm of gas annually.

¶3. (SBU) Sigurd Schmidt, a Commission official from DG-Tren, told EST Officer that the Iraq and Turkmenistan pledges are part of a wider effort to diversify the EU's gas supply and find supporting volumes for the proposed Nabucco pipeline. Schmidt said the EU is concerned about a future production gap as Europe's demand for gas grows. The Commission is expecting a decline in European gas production and is worried about underinvestment in Russia leading to declining gas production there. As such, bringing in new supplies through projects such as Nabucco is becoming more and more important. For this reason the EU is pursuing potential gas supplies from Central Asia and the Middle East.

The Pledge

¶4. (SBU) Schmidt indicated the gas to meet al-Shahrastani's pledge would come from the Akkas field in Iraq's western Anbar province, near the border with Syria. Schmidt sees the only viable export route for Akkas gas via Syria to Turkey. This route would require very little in terms of new pipelines -- a 40 km connector to Syria from Akkas and a 17 km Syria to Turkey connector. According to Schmidt, the

Syrian system has sufficient capacity and would not need to be expanded to handle the flow. Schmidt estimates it would take about four years to bring Akkas exports up to the pledged amount of 5 bcm/y. Schmidt indicated that EU understanding is that Akkas development can proceed without need for passage of the Iraqi hydrocarbon law.

15. (SBU) Kobia commented he believes the Iraqi pledge is realistic. Al-Shahristani is pleased with the tender for Akkas development, which saw 30-40 companies pre-qualified, and al-Shahristani told EU officials he is very happy with the "computer pick" of the best offer. An intergovernmental agreement would be needed between Iraq, Syria, and Turkey to provide an export route into Europe, but Kobia does not see this as a sticking point. Kobia indicated the pipeline connection between Syria and Turkey should be completed next year. According to Kobia, the Iraqis have also considered other less attractive options for exporting gas from Akkas: shipping gas south via the Arab Gas Pipeline to Alexandria, Egypt where it could be converted to LNG for export to Europe; or building a pipeline from Akkas to northern Iraq where it could be directly exported to Turkey (bypassing Syria). Like Schmidt, however, Kobia views the Iraq-Syria-Turkey route as the most viable option.

Next Step: An EU-Iraq Energy MOU

16. (SBU) Kobia indicated that the EU and Iraq are very close to signing an Energy Cooperation MOU. The EU has almost completed its internal review and Kobia feels the MOU could be signed in a matter of weeks. Kobia said that Al-Mailiki and al-Shahristani had asked to sign the agreement this week, but the EU had to explain that they were not quite ready. The MOU will not be legally binding, but is intended to strengthen the energy dialog. Schmidt indicated the MOU will cover three main topics:

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-- Enhanced cooperation on developing an energy policy for Iraq.

-- Enhanced cooperation on energy security and supply. Topics discussed under this heading, include: using associated gas that is now being flared; hydrocarbon supply options; LNG possibilities in the south; Arab Gas Pipeline options; and more technical and educational exchanges.

-- Renewable Energy and Energy Efficiency. The Iraqis are very interested in solar and wind power -- especially because these options would provide distributed power and help with blackouts. Kobia indicated that Iraq views its oil and gas as sources of export revenue so they are looking for other solutions to meet internal electricity demand. Schmidt said that the main topic for energy efficiency was looking at ways to improve efficiency at Iraq's oil refineries.

17. (SBU) Kobia characterized the MOU as the first step towards a broader cooperation agreement. Kobia and Schmidt both indicated that there have been very good EU-Iraq discussions on the energy chapter for the cooperation agreement. Schmidt also indicated that the EU, in cooperation with the Energy Charter Secretariat, plans to arrange a seminar in Damascus on June 19 for representatives from Lebanon, Syria, Jordan, Egypt, Turkey, and Iraq to work towards building a consensus on hydrocarbon transit. The seminar will be a working level event. Damascus was chosen as the venue because of its central importance for the Arab Gas Pipeline.

18. (SBU) Comment: This is the second pledge in a week that the EU has received on gas from a potential export supply country. It demonstrates that the EU's energy diplomacy is at least producing pledges. The same sticking point seems to remain, however: how will the EU get this gas? Kobia said that the key for Europe is getting Turkey to accept a transit

regime for gas that is "fair and transparent". He urged the U.S. to collaborate with the EU to make this happen. He also said that Turkey needs to separate its discussions on energy with the EU from its accession negotiations or negotiations on gas will go nowhere. However, the EU is still relatively weak as an institution on promoting its energy interests and it is as yet uncertain what its new pledges will amount to. In the broader context, greater cooperation on energy is an encouraging sign of increased EU engagement with Iraq. End Comment.

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